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Assume Nothing

It's a somewhat unfortunate development that this presentation is titled 'Assume Nothing', as we're supposedly in an age of information and 'progress' - if that's what it really is - and we're told that we're making it everywhere, but particularly on the stock markets, where you can borrow money for a year - or thirty - to play for next to nothing. A shame that hasn't applied to the rubber markets over the last few years. The latest 'crusade' is the propagation of something that might, ultimately, threaten our collective ability to support ourselves. It's 'AI', or Artificial Intelligence.

But here's a caution: intelligence is acquired, not manufactured or bought in the apple store or online. And 'artificial' is surely one of this decade's biggest problems.

The word's dictionary definitions sum it up fairly accurately:

insincere or affected, feigned, <u>false</u>, unnatural, contrived, pretended, <u>exaggerated</u>, actorly, overdone, hollow, pretended, <u>phony</u> and, while it has many more synonyms, none of them positive, here's the problem in a single, defining word: **<u>FAKE.</u>** We all know **<u>who</u>** we're talking about.

Politicized as it's become over the years, because this industry employs so many potential voters, rubber is now no stranger to fake news.

'Fake' has gained a strong foothold and begins to dominate because we're relying on what the media feeds us: we're not asking questions and, if we're not talking to each other, we shouldn't be **assuming anything.** Instead, we should be sharing mutual problems and ideas, developing and refining them for the good of this industry that's providing us with a living. Unlike many of those who govern us these days - and did we really vote for what they've actually become? - we shouldn't be sniping and hitting and running by twitter or other forms of social media in this industry: we're all part of an association, so we should associate and talk more often amongst ourselves for group benefit. Call them update sessions.

Just last week, Thailand’s Commerce Minister called a press conference in which he stated that his government, in other words the Rubber Authority of Thailand, had signed an MOU “with a few Chinese buyers” to sell a big volume of rubber - ‘big’ meaning “about 260,000 tons” - adding that he now has plans to go to India and the Middle East “to talk to buyers there to urge them to buy more rubber as the current price **is well below the production cost**, which is a good opportunity to stock up.” But if one’s just stocking up - because it’s cheap - the action could result in a market that becomes even cheaper because it takes the buyers out of the market equation for the next few months - or more - as they sit on their accumulations of material in an uncertain and unstable economic environment. Why would they want to do that? The minister’s plans sounded very much like a sales pitch designed to pacify his rubber farmers, but why push to sell something that you’ve just admitted is priced at well below their production cost? Are Thailand’s pockets really that deep? More subsidies on the way? There’s something wrong here: it just doesn’t add up. Even the farmers must realize that it’s a cheap trick to keep them quiet for another couple of months, maybe only weeks.

We’re been assailed from all sides this year by unproven or unsubstantiated statistics, the latest from the ANRPC, saying there’s a cumulative shortage of some 630,000 tons of natural rubber for the first nine months of this year. We presume that number excludes worldwide stocks. The Tripartite, meantime, seems to be projecting an “800,000 tons plunge in output this year from the top natural rubber producers Thailand, Indonesia and Malaysia due to fungal disease.” If that’s true, the ‘fungus’ alone accounting for almost 9 percent of last year’s output from the Tripartite countries, why does the commerce minister need to embark on a sales drive that he might not be able to physically deliver on due to the forecast shortages? Isn’t it time responsible people started telling the truth? It’s the smallholder who ultimately suffers.

And an MOU? An old trick. Its ‘U’ stands for understanding. We understand the need for a PR boost before sharp things start flying but surely an MOC, the ‘C‘ in this case standing for contract, would be an altogether safer bet. After all, look at all the current trade war’s ‘agreements’ and understandings that haven’t been signed off on. Yet. If ever.

Ultimately, it didn’t take China’s traders long to react to the Thai minister’s new ‘business’ claims as, within a day, we had their explanation: “This MOU’s only for consumption at the current China International Import Expo, it’s a symbolic one, without any further process normally: it happens every year.”

Meantime, in terms of demand, China is not the only laggard as India’s has also dropped sharply. That said, nature’s doing its best to compensate and balance as, according to a senior official of that country’s largest producer, “unabated rains have hit tapping in India, which has entered its peak production phase,” and “yield has come down by 10 to 15 per cent compared with last year. We feel that if the rains continue then production will be nearer to 700,000 tons, lower than the Rubber Board’s revised estimate of 730,000 tons for Fiscal Year 20.’’ The Rubber Board’s chairman, however, thinks that “improved prices may prompt growers to tap more.” And, if they do that, the country will import less from S.E. Asian and

Indo-China sources, if prices there should continue to rise. Which wouldn’t help overall poor market sentiment.

Meantime, a generally blasé rubber industry still thinks that rubber-threatening diseases can be treated with cloning (a slow process), better housekeeping, fertilizers, chemical spraying, etc. Years of surplus have encouraged a laid-back attitude of “It’ll be alright on the night.” It might not be.

Expert and multiple efforts to revive growing on an economical scale in NR’s original Brazilian home failed miserably (today’s annual output there is less than 200,000 tons) - a spore is still a spore – and the spread of these natural aggressors, already encountered in Indonesia, Malaysia, Sri Lanka and now Thailand could, unfortunately, decimate tree stock at a much faster pace than Kazakh dandelion (Taraxacum Kok-saghyz) or guayule can replenish their loss of output. And can SR really replace deficits in case of need? We certainly don’t want to paint an apocalyptic picture, but the motto from hereon must be, and we’ll repeat it again and again: “Assume Nothing and Be Prepared”.

The rubber industry’s arrived at a crossroad but, as with Brexit, it’s now not a question of simply turning left or right to buy yet more time to feed its indecision, but of facing the inevitability of either charging head-on at its self-inflicted problem, and properly dealing with it, or of becoming a total irrelevance – as soon as within the next decade. Things move fast these days.

For reasons well-documented elsewhere, rubber’s natural source was successfully transplanted over a century ago from Brazil to the once-mighty plantations of S.E. Asia as the auto industry rapidly evolved but, as the sun set on its colonists, so the source ratio started to move from the plantation towards the indigenous farmer, the so-called smallholder.

From being almost 100 percent plantation-based at its inception, the industry gradually arrived at a fifty-fifty balance of plantation-smallholder by the mid-Sixties, the two complementing each other, but the ratio now, approaching the end of the 21st century’s second decade, is just over ninety percent in the smallholder’s ‘favor’, possibly a little less in the centralized economies. The original model of plantation with its own processing facility and regular, captive end-users gave way to the smallholder, his middleman (banker and barter trader in one) and the rise of independent, stand-alone processors. The dynamic changed: a devolution of both control and pivot-point; for want of a better description, a ‘free-for-all’. Yes, rubber’s physical characteristics, and its ‘flow’ from tree to processing plant, might lend themselves to independent smallholder production but they also leave the unaffiliated farmer vulnerable to the market’s vagaries and, increasingly, to ill-conceived government agricultural policies designed for short-term effect. Some experts and academics now see the industry’s migration from plantation to smallholding as the ‘least desirable’ option for rubber’s overall future development.

One reason for that swing in rubber's source is 'bottom line', many plantations in S.E. Asia abandoning rubber - like they did coffee when they switched, wholesale, into rubber a century earlier - to replace it with palm oil, a crop that provides a much faster return and has more than five times rubber's demand capacity. Left to itself, rubber hasn't really prospered, a couple of runs on the upside, not sustained, ultimately exacting the heavy penalty of oversupply and consequent price depression.

With the advent of national independence movements in S.E. Asia, the ownership of growing and processing facilities passed from London, Amsterdam, Antwerp and Brussels back to source. Rubber became politicized (it's an employment 'sponge' that also creates large blocks of potential 'voters' when it's promised 'support') although in the early days of the switch its marketing was still very much in foreign hands. A fact which also meant that its welfare was still being overseen by fairly powerful trade associations that occasionally resorted to international regulation, sometimes successfully, to prevent supply bubbles in times of reduced demand. Order was largely maintained as the associations were listened to as the voice not only of reason, but also of experience. No more, unfortunately.

'Compact' Malaysia never really had a problem in its period of ascendancy as it led the industry into the late Eighties, but fast-forward to the 2010s and the rise of anarchy in the rubber industry. A long-time leader and industry innovator, Malaysia switched first from rubber to palm and then from agriculture to industry and golf, slipping in Rubber's Champions League rankings from No1 producer to sideshow, out of the Top Five, today a net importer of rubber.

Subsequently overtaken by Thailand and Indonesia, neither as compact or controllable in the field as a Malaysia, Sri Lanka or even Vietnam might be, the industry's regulatory control suffered, licensing largely ignored, over-planting encouraged by two periods of strong price growth in the 2000s - on the back of an emerging China - that were derailed, briefly, by the 2008-9 financial crisis and culminating in early 2011's all-time price records. Uncontrolled and with its traditional exchanges (an 'insurance' vehicle that supposedly represents a commodity's current 'fundamentals') preferring turnover revenue to trade service - claiming the need for liquidity (so why do all three main exchanges maintain faulty and under-traded second-string contracts?) and encouraging outside speculative interests, including various fund and algorithm traders, to the detriment of industrial price discovery - **rubber has been left without any investment certainty in its forward planning departments** as its newcomers, mainly speculative, are no respecters of supply/demand issues, more of instant opportunity and return without regards for long-term stability. Ostensibly twelve-month markets, most concentrate on just one or two positions to cater for speculative activity. Liquidity in those is a danger not an asset as it's not based on fundamentals; illiquidity in the others barring them for trade hedging purposes. The relationship between a market's open position and its daily trading volume is often a sign: Shanghai's daily turnover often exceeds its open position, as it has been doing again over the last couple of weeks. That's not genuine trade business. And are the participants really trading rubber or, by association as rubber's international denomination is in dollars, the yuan/dollar or yen/dollar?

Ultimately, it’s the ground-level, agricultural sector relying on rubber for its livelihood, which suffers. There’s little doubt that a long period of oversupply has been detrimental to the rubber industry’s health as consumers have, perhaps inadvertently, turned depressors, enjoying short-term gain rather than considering and ensuring the long-term sustainability for their base material that’s fundamentally based on price.

With such a scattered material supplier base, given the smallholder predominance, particularly in a geographically sprawling source such as Indonesia, the supply industry’s growth is unstructured. It’s heavily reliant on the middlemen between smallholding and processing factory who protect their own interests first. The farmer, often living below subsistence level, is regularly forced to produce more to maintain his basic income. The industry’s unable to combat the current outbreak of natural diseases: housekeeping, fertilization, necessary spraying, etc., are all fine if your non-plantation neighbors keep up with you; waste of time and effort if they don’t. Given its voter importance, rubber has become a political tool and, just as often, when prices are low, a political embarrassment. Limited-option smallholders are there for a lifetime, politicians for four or five years - if they’re lucky – as they kick that can down the famous road! Individual exporting country support efforts are little more than political appeasement, rarely of genuine assistance. Country rubber associations are invariably insular and self-serving, protecting rather than disciplining maverick units to avoid embarrassment. There is an international ‘umbrella’ organization that should bind all associations if it lives up to its name: but it needs to concentrate on commerce not politics!

It’s not easy for rubber to make progress when it has two dominating influences: One S.E. Asian country produced 37 percent of the world’s supply in 2018, and one end of the current high-profile trade war imported 42 percent of it. China produces over 800,000 tons of its own rubber but, simple mathematics, why would it want to see such an important import of over 5m tons cost it more? Its trading units spread far and wide throughout the rubber world, their influence too, one of their most dominant number, in an attempt to corner market share, failed, recently announcing closure. Given that failure’s ultimate size, there’s been far less side-effect to date from its demise than there was while it was alive and operating, ‘profitability’ seemingly not a prerequisite in a semi-state-controlled company. We need to ask why? And who was monitoring the inflation of a balloon that was bound to burst? The market assumed the unit’s backers would ensure its viability. It assumed wrongly.

In the meantime, an unsustainable price structure has emerged, industry-wide, today’s ruling market prices generally below production cost. Rubber being generally denominated in US dollars, it might not be of immediate consequence for the centralized economies, who need those dollars whatever their cost. For the rest, it’s decision time.

Sustainability is defined as the ability to exist. Indefinitely, not just short-term. Exploitation of resources is one thing, but exploitation of their immediate guardians, the farmers, something else again. If we’re to meet future needs in a world that might not find it easy to survive without a critical, even strategic, ca. 14m tons commodity then, apart from cultural considerations, and a sympathetic approach, we need to ensure its sustainability by **first addressing its value or, rather, the current lack of it.** That might be best tackled from its price-discovery structures, a serious look at how value is arrived at and maintained, rather than how those numbers might be manipulated for short-term gain. That’s going to need co-operative effort, with strong leadership but **without** political interference. These are primarily commercial issues that, if and when solved, will automatically deal with the political ones. It’s an international undertaking but, first, everyone has to realize that it’s also an internationally critical one.

Like the survival of bees.

Ultimately, it’s crucial longer term to find a means of balancing rubber’s supply and demand, no simple task as rubber’s fundamentals have never been easy to fathom and particularly not now that climate change and cloning advances are affecting traditionally seasonal expectations. Somehow, no matter what the apparent hurdles, it’s an industry that’s managed regularly to over-supply itself, thus creating damaging cyclical problems. Without pointing too obvious a finger, Thailand was largely responsible for the latest bout of surplus, magnified by a general slowing down in the world economy and the current trade war, but it’s one that may or may not be balanced by the natural threat posed by disease.

May not because - with minor exceptions such as palladium - commodities are mostly in all-round surplus and rubber’s is likely to be prolonged because, as much as disease might affect tonnage where it’s currently prevalent, Indochina and Africa will supplement it. For Africa, read the Ivory Coast where, on the basis of the last full year’s figures, in the five years since 2013, its production is up by 116 percent where the rest of that continent’s increase over the same period is 44 percent and most-recent travelers to The Ivory Coast report amounts of raw material not seen before, which suggests that ever-ready-to-process-rather-than-grow Malaysia will be well-supplied with material for its own still substantial processing capacity in the months ahead. For the record, Africa’s total tonnage for 2018 amounted to just on 900,000 tons but, following the short-lived price boom of 2010-2011, and adding seven years for a rubber-tree’s maturity, the Ivory Coast alone is expected to challenge for a global top-five position within the next two or three years as it crosses the million-tons output mark.

And if Africa is leading the ‘new rubber’ charge, Indo-China (Vietnam, Cambodia and Laos) is keeping pace with it over those same five years, production up 36 percent with further sharp increases in the first half of this year, but we have to remember that they have different cost structures. And we have to include in this set neighboring Myanmar, an ASEAN member, as it comfortably passed the quarter of a million tons output mark last year, that up by 54 percent since 2013 with, seemingly, capacity to spare.

So, while there appears to be little danger that we’ll have a critical shortage of raw material any time soon, what we could face is a crisis of profitability, or lack of it, starting with the subsistence-level farmer - who can no longer use the traditional parameter of equating a kilo of rice to a kilo of rubber - and on through processing, distribution, financing etc., many of the processing units already mothballed or closed on economic grounds, most others battling with economy of scale as they continue to under-utilize their machine capacities.

And for how long will banks entertain a no-return industrial community? If we’re to talk about sustainability then in this industry that’s predicated on price. Given a decent one, the rest follows almost automatically. We can’t assume that because sustainability is the new millennium’s byword it has the same meaning for everyone in the rubber chain.

Low bids taking advantage of the industry’s current predicament just make it worse. The influence and incidence of the so-called LTC, or long-term average price contract, is also destructive to price as it takes the buyer out of the market equation and we all know what happens when there’s a predominance of unsatisfied sellers. The preference for the LTC is understandable on both sides of the fence: the larger buyers increasingly use strictly-approved suppliers, specific parameters and a variety of different packing/transport options that sharply reduce the supplying or intermediary market’s options. The processor equally wants a high percentage of his output covered by an LTC so that he has a target and that he’s not left touting his monthly surplus to an unreceptive market. There’s a reason why prices are low. But something needs to be done because if cost can’t ultimately be covered, we’re looking at another all-time record for rubber prices within the next decade as production units exit. Who needs that? And who’d take on a forward long position in physical rubber these days if the buyer’s preference may change in the interim?

The GPSNR or Global Platform for Sustainable Natural Rubber styles itself as an international, multi-stakeholder, **voluntary** membership organization. Voluntary may be the problem here because it’s an area which will need strong regulation: if it doesn’t have total unanimity it will be as much a waste of time, money and effort as the ambitious smallholder having a couldn’t-care-less neighbor where leaf blight or disease is concerned.

If we’re to see a comprehensive overhaul of natural rubber’s value chain to ensure and improve its socio-economic and environmental performance, it’ll take commitment and action.

Made up mainly of producers, processors and traders, tire and rubber product makers and buyers, car makers, ‘other downstream users’ and financial institutions, the platform, if it’s expected to succeed in its goal, needs ALL of its stakeholders to play fair. And playing fair means not just being club members, not beating down an already underpriced commodity with low bids, or of selling it below the cost of its production to maintain market share. We’ve already said it needs co-operative and sustained effort. From everyone. And all at the same time, without separate agenda or interests.

And so, just because it’s an ‘international’ platform, assume nothing for now. This industry is not a casino. It needs to take back control of its pricing mechanisms to ensure its costs are covered to allow for investment, reinvestment, protective research and, ultimately, sustainability. **If it doesn’t make commercial sense, it’s simply not sustainable.** If the existing hedging markets (providing ‘insurance’ was their original brief) continue to use them for speculation, we’ll need to look for a bypass around them as the industry needs to have a more stable and representative platform than they provide at the moment for accurate budgeting and investment.

Rubber issues need constant, **equal-responsibility** discussion and interaction between the industry’s ‘stake-holders’. The WDK is kind enough to provide a platform.

Waiting for Samuel Beckett’s Godot is not an option as things stand. He never turned up. Let’s give the screens, sundry mice and keyboards an occasional rest and make time to talk to each other, regularly, to find a way forward.

Thank you.